

AMENDED IN ASSEMBLY SEPTEMBER 3, 2003

AMENDED IN ASSEMBLY JUNE 26, 2003

AMENDED IN ASSEMBLY JUNE 17, 2003

AMENDED IN ASSEMBLY JUNE 9, 2003

AMENDED IN SENATE APRIL 21, 2003

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**SENATE BILL**

**No. 407**

**Introduced by Senator Torlakson**

*(Principal coauthor: Assembly Member Steinberg)*

February 20, 2003

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~~An act to add Chapter 6.4 (commencing with Section 30030) to Division 3 of Title 3 of the Government Code, and to add Section 97.5~~  
*An act to add Section 97.5 to the Revenue and Taxation Code, relating to local government finance.*

LEGISLATIVE COUNSEL'S DIGEST

SB 407, as amended, Torlakson. Local government financing: enterprise special districts: property tax revenue allocations.

Existing property tax law requires the county auditor, in each fiscal year, to allocate property tax revenue to local jurisdictions in accordance with specified formulas and procedures, and generally requires that each jurisdiction be allocated an amount equal to the total of the amount of revenue allocated to that jurisdiction in the prior fiscal year, subject to certain modifications, and that jurisdiction's portion of the annual tax increment, as defined. Existing property tax law also reduces the amounts of ad valorem property tax revenue that would otherwise be annually allocated to the county, cities, and special

districts pursuant to these general allocation requirements by requiring, for purposes of determining property tax revenue allocations in each county for the 1992–93 and 1993–94 fiscal years, that the amounts of property tax revenue deemed allocated in the prior fiscal year to the county, cities, and special districts be reduced in accordance with certain formulas. It requires that the revenues not allocated to the county, cities, and special districts as a result of these reductions be transferred to the Educational Revenue Augmentation Fund in that county for allocation to school districts, community college districts, and the county office of education. Existing law excludes from these reduction and transfer requirements, among other entities, multicounty special districts.

This bill would require, in the 2003–04 fiscal year, that the amount of ad valorem property tax revenue deemed allocated in the 2002–03 fiscal year to an enterprise special district, as defined, be reduced by the lesser of 2 amounts. This bill would decrease this reduction amount by 70% for a district that also performs nonenterprise functions. This bill would also require that those ad valorem property tax revenues that are not allocated to an enterprise special district as a result of these provisions instead be allocated to a county Educational Revenue Augmentation Fund for allocation as otherwise required by law. This bill would also require that ad valorem property tax revenue allocations in the 2004–05 fiscal year and each fiscal year thereafter fully incorporate the allocation adjustments required by the bill.

By requiring county auditors to recalculate ad valorem property tax revenue allocations to enterprise special districts and Educational Revenue Augmentation Funds, this bill would impose a state-mandated local program.

~~This bill would also establish the Local Services Preservation Fund to receive, in each fiscal year, an amount of money equal to the total amount of money required by this bill to be allocated in that fixed year to Educational Revenue Augmentation Funds. This bill would also state the intent of the Legislature to appropriate moneys in the Local Services Preservation Account to counties and cities, as specified.~~

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement, including the creation of a State Mandates Claims Fund to pay the costs of mandates that do not exceed \$1,000,000 statewide



and other procedures for claims whose statewide costs exceed \$1,000,000.

This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to these statutory provisions.

*This bill would become operative only if AB 421 of the 2003–04 Regular Session is chaptered.*

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: yes.

*The people of the State of California do enact as follows:*

1     ~~SECTION 1.—Chapter 6.4 (commencing with Section 30030)~~  
2     ~~is added to Division 3 of Title 3 of the Government Code, to read:~~  
3  
4     ~~CHAPTER 6.4. LOCAL SERVICES PRESERVATION FUND~~  
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6     ~~30030. (a) (1) The Local Services Preservation Fund is~~  
7     ~~hereby created in the State Treasury to receive, in each fiscal year,~~  
8     ~~an amount of money equal to the total amount of money allocated~~  
9     ~~in each fiscal year to Educational Revenue Augmentation Funds~~  
10    ~~pursuant to Section 97.5 of the Revenue and Taxation Code.~~  
11    ~~(2) On or before June 1 of each fiscal year, the Director of~~  
12    ~~Finance shall notify the Treasurer of the amount to be deposited~~  
13    ~~in the Local Services Preservation Fund for that fiscal year.~~  
14    ~~(b) It is the intent of the Legislature to appropriate, in the annual~~  
15    ~~Budget Act, moneys in the Local Services Preservation Fund~~  
16    ~~among counties and cities in shares based on the relative~~  
17    ~~population of each county or city.~~  
18    ~~SEC. 2.—~~  
19    ~~SECTION 1.~~ Section 97.5 is added to the Revenue and  
20    Taxation Code, to read:  
21    97.5. (a) (1) Notwithstanding any other provision of law, for  
22    purposes of making property tax revenue allocations for the  
23    2003–04 fiscal year, the total amount of ad valorem property tax  
24    revenue, other than those revenues pledged to debt service,  
25    deemed allocated to an enterprise special district in the 2002–03  
26    fiscal year shall, subject to modification under paragraph (2), be  
27    reduced by the lesser of the following:

1 (A) Forty percent.

2 (B) An amount equal to 10 percent of that district's total  
3 revenues, from whatever source.

4 (2) For an enterprise special district that also performs a fire  
5 protection or recreation and park nonenterprise function, as  
6 identified in the most recent edition of the State Controller's  
7 Special Districts Annual Report, the amount of the reduction  
8 calculated pursuant to paragraph (1) shall be decreased by 70  
9 percent.

10 (b) If an enterprise special district is located in more than one  
11 county, the auditor of each county in which that enterprise special  
12 district is located shall implement that portion of the total  
13 reduction, required by subdivision (a) with respect to that district,  
14 determined by the ratio of the amount of ad valorem property tax  
15 revenue allocated to that district from the county to the total  
16 amount of ad valorem property tax revenue allocated to that  
17 district from all counties.

18 (c) Those amounts of ad valorem property tax revenues that are  
19 not allocated by a county to an enterprise special district as a result  
20 of subdivisions (a) and (b) shall instead be deposited in the  
21 county's Educational Revenue Augmentation Fund for allocation  
22 as otherwise required by law.

23 (d) For the 2004–05 fiscal year and each fiscal year thereafter,  
24 ad valorem property tax revenue allocations made pursuant to  
25 Section 96.1 shall fully incorporate the allocation adjustments  
26 required by this section.

27 (e) For purposes of this section:

28 (1) An "enterprise special district" means a special district,  
29 other than a special district described in paragraph (2), that meets  
30 both of the following criteria:

31 (A) The special district is not otherwise required by law, for any  
32 fiscal year, to have its ad valorem property tax revenue allocation  
33 reduced and reallocated to an Educational Revenue Augmentation  
34 Fund.

35 (B) The special district is properly included as performing an  
36 enterprise activity as identified in the most recent edition of the  
37 State Controller's Special Districts Annual Report.

38 (2) An "enterprise special district" does not include any of the  
39 following:

40 (A) A qualified special district, as defined in Section 97.34.

(B) A district organized pursuant to the Local Health Care District Law set forth in Division 23 (commencing with Section 32000) of the Health and Safety Code.

(C) A transit district.

(D) *A district that, on either the operative date of the act adding this section or January 1, 2004, whichever is later, was under a cease and desist order by the Santa Ana Regional Water Quality Control Board.*

(E) (i) *Except as otherwise provided in clause (ii), a district that meets all of the following criteria:*

(I) *The district is a water agency that does not sell water at retail, as described in clause (ii) of subparagraph (A) of paragraph (2) of subdivision (c) of Section 97.3.*

(II) *The district is not a district described in paragraph (2) of subdivision (a).*

(III) *The district, on the operative date of the act adding this section, is a party to one or more contracts that expressly prohibit, during the term of the contract, excluding renewal options, the agency from increasing, beyond inflationary or incidental adjustments, rates charged to the agency's customers.*

(ii) *When any contract described in subclause (III) of clause (i) is fully performed or renewed, the water agency that was a party to that contract is deemed to be an enterprise special district for purposes of this section that is fully subject to subdivision (a).*

(3) (A) "Revenues pledged to debt service" includes only those amounts required to pay debt service costs in the 2002–03 fiscal year on debt instruments issued by a special district for the acquisition of capital assets.

**SEC. 3.—**

(B) *For an enterprise special district that issued debt instruments in the 2002–03 fiscal year, "revenues pledged to debt service" includes only those amounts required to pay debt service costs in the 2003–04 fiscal year on debt instruments issued by a special district for the acquisition of capital assets.*

SEC. 2. Notwithstanding Section 17610 of the Government Code, if the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code. If the statewide cost of the claim for

- 1 reimbursement does not exceed one million dollars (\$1,000,000),
- 2 reimbursement shall be made from the State Mandates Claims
- 3 Fund.
- 4 *SEC. 3. This act may not become operative unless Assembly*
- 5 *Bill 421 of the 2003–04 Regular Session is chaptered.*

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